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SUBJECT: DAILY SUMMARY OF JAPANESE PRESS 12/26/06

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ARTICLES:

- (1) Separate budget framework to be set for US force realignment plans, outside reach of "1% of GNP" principle

AKAHATA (Page 2) (Slightly abridged)
December 23, 2006

The Finance Ministry has decided to set up a separate framework for spending on the realignment of the US military presence from the ordinary defense-related budget for FY2007. The government has

introduced the principle of capping the government's military spending at 1% of the nation's gross national product (GNP). But no matter how much spending on US force realignment increases, this principle will not be applied. This means that the separate framework can be used as a tool for Japan to increase armaments unlimitedly.

The Miki cabinet set up the "1% of GNP" policy in November 1976 in response to growing criticism of ever-expanding military spending. Successive governments have abided by this policy, with one exceptional case in FY1989, when defense outlays exceeded the 1% ceiling by 0.006 percentage points.

This policy is applicable only for conventional defense-related expenditures consisted of outlays for the Self-Defense Force and for host-nation support. Special Action Committee on Okinawa (SACO)-linked expenditures is also outside the reach of the principle.

In the draft budget for FY2007, the initial year for the overall plan for the realignment of the US military presence in Japan, 7.2 billion yen has been allocated. But the total amount of money to finance the plan is estimated to reach as much as 3 trillion yen over a decade.

The "separate framework" formula is designed to enable the Abe cabinet to disburse huge funds for the US military, without being bound by the 1% principle. This means the government will be further dipping into the budget to support the people's livelihood.

(2) Japan's review of energy strategy unavoidable to ensure stable supply, with initiative for Sakhalin-2 project given to Russia

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NIHON KEIZAI (Page 3) (Excerpts)
December 22, 2006

A decision has been made that the Sakhalin-2 project to exploit natural resources off Sakhalin will be promoted under the initiative of the Russian government-controlled gas company OAO Gazprom. Mitsui & Co., and another Japanese company involved in the project set forth as a precondition for transferring their shares that the supply contract they concluded should be steadily implemented. Keeping this condition in mind, the two Japanese companies expect no impact of the Russian government's new decision on LNG shipments. Under the current situation, though, since the Russian government's intentions will be unavoidably reflected in the management of the project, the Japanese companies will inevitably be pressed to review their profits projections. The Japanese government will also be urged to rewrite its strategy to become more independent in procuring energy resources.

Resource suppliers strengthening state control over energy resource supplies

Uncertainty is now looming large over Japan's energy security at a time when China is engaged in an offensive to secure oil exploitation rights while resource-producing countries, including Russia, are strengthening their governments' control over oil and natural gas supplies. Indonesia, the largest gas supplier for Japan, has also decided to significantly reduce gas supplies to Japan. In addition, Japan lost most of concession rights for the Azadegan oil field in Iran this October.

In China and India, demand for energy has been on the sharp rise, eventually heating up global competition for securing oil and natural gas. Japan came up with its new energy strategy this May, which called for raising the ratio of Japan's independent oil development from the current 15% to 40% by 2030.

However, the road ahead is likely to be bumpy. For the Azadegan oil field, Japan was once given 75% of all concession rights, but this figure was dropped to only 10% in connection with Iran's nuclear development problem. Japan has continued negotiations with Russia on a plan for Japanese companies to participate in a project designed

to develop oil fields in East Siberia, but no prospects are in sight for both to find common ground due to an increased risk in investment in natural resources in Russia.

The growing outlook that energy prices are likely to hover higher over the long run has prompted resource-supplying countries to strengthen their state control over energy resources. Even in many cases involving American oil majors, American companies have yielded to the governments of resource suppliers. A senior member of the Ministry of Economy, Trade and Industry official said, "Japan has stepped up efforts to diversify suppliers, such as Australia, so there will be no concern about Japan's energy security for the time being." But since Japan relies on imports for most of its oil and gas supplies, it might face a more difficult situation.

The government intends to back up Japanese firms' investment in developing energy resources by disbursing public funds. The government has decided to raise the maximum amount of its investment in petroleum exploration by Japan Oil, Gas and Metals National Corporation by 25 percentage points to 75% starting next fiscal year. Nonetheless, it is also true that "it is impossible to secure energy resources only with money," as a senior METI official said,

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for instance, a case in which resource suppliers use energy as a bargaining chip. Japan is being urged to hammer out a comprehensive diplomatic strategy making use of energy resources, such as official development assistance (ODA) and technical cooperation.

(3) JDA proposal for establishment of central readiness regiment approved in FY2007 draft budget

AKAHATA (Page 2) (Slightly abridged)
December 23, 2006

The Defense Agency (JDA) proposed in its FY2007 budgetary requests setting up a central readiness regiment. The government has approved of the proposal as of yesterday. The proposed regiment is an operational unit ready to go on overseas missions. The Defense Ministry Law, which was enacted in the latest extraordinary Diet session, designates overseas operations as a main duty of the Self-Defense Force.

Under the JDA plan, about 700 troops will be deployed at the Utsunomiya Camp in Tochigi Prefecture within FY2007.

The regiment will be placed under the Central Readiness Command (CRC), which will also be newly established and will be responsible for planning, training, and commanding regarding the dispatch of Ground Self-Defense Force troops overseas.

The CRC will be set up in the Asaka Camp (Tokyo, Saitama) for the time being, but the CRC will be moved to the US Camp Zama (Kanagawa) by FY2012 in accordance with the agreement reached between Japan and the United States on the realignment of the US military presence in Japan. In the Finance Ministry's draft budget for FY2007, approximately 7 million yen has been earmarked to finance feasibility study for the relocation plan.

The JDA will be upgraded to ministry status in January. The government has also accepted its proposals for newly establishing in the defense ministry a Japan-US defense cooperation division and an international policy division, as well as a strategic planning office in charge of laying out a long-term military strategy. The JDA is aiming to strengthen its policymaking capabilities, including Japan-US military cooperation and overseas deployment of troops, when the JDA is transformed into defense ministry.

(4) Final report by Regulatory Reform Council: Wording steps back from interim report; Concern about Kantei leadership

YOMIURI (Page 4) (Excerpts)
December 26, 2006

The government's Regulatory Reform and Privatization Promotion Council, chaired by Takao Kusakari, chairman of Nippon Yusen,

yesterday adopted a final report. Step backs from the interim report, released in July under the Koizumi cabinet, were seen in some reform items, such as reform of the education board system. This is due to fierce resistance from concerned government agencies. Some sources connected with the panel voiced concern about the Prime Minister's Official Residence's (Kantei) leadership.

Prime Minister Abe characterizes regulatory reform as part of his economic reform strategy. He is demonstrating his cabinet's stance of continuing to positively tackle deregulation. As part of such efforts, he will set up a panel that will succeed the Regulatory

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Reform Council next January.

Regarding educational reform, the primary concern, coordination of views with the Ministry of Education, Culture, Sports, Science and Technology (MEXT) over reform of the education board system, an issue incorporated in the July interim report, encountered complications. Alarmed about the possibility of the panel taking over leadership in educational reform, MEXT opposed the idea of including the words "drastic reform." For this reason, the panel came to terms with MEXT on propelling debate on legal revisions, based on discussions pursued by the Educational Revitalization Council, instead of including those words in the list of specific measures.

Consideration about the acceptance of foreign workers who have a social welfare care-giver license has been removed from items for specific regulatory reform, subjects of discussion at cabinet meetings. The issue has instead been included in the list of themes for which regulatory reform is to be promoted in the future.

Some have pointed out that subtle differences between the interim report and the final reports reflect differences in approaches to reform between Kusakari, who took office as chairman in October, and his predecessor Miyauchi. Some officials of the secretariat of the panel expressed expectations that the wording of the report compiled under Kusakari is vague, but he would display ability to get things done in the process of realizing proposals with one noting: "Mr. Miyauchi's policy was to send the panel's messages through open hearings. However, Mr. Kusakari is not a confrontational type. He is a person who make moves in political terms with nifty footwork."

There is also an aspect of targeted regulations changing in quality while deregulation has been in progress. The past deregulatory efforts have been centered on reform of economic regulations concerning corporate activities, such as the regulation on entry into the taxi business. However, deregulatory discussions have gradually begun to cover social regulations, such as the education issue and the way NHK should operate.

Some government officials noted: "Just debating the education board issue will not raise growth rates. The panel that will succeed the Regulatory Reform Council should consider what its mission is."

Regulatory reform: Already 6,000 items realized

In the government's regulatory reform initiative, more than 6,000 regulations have been subjected to reforms since the establishment of the Regulatory Reform Taskforce under the Administrative Reform Committee. The Cabinet Office calculated that the government's deregulatory efforts have yielded effects worth approximately 14.3 trillion yen in fiscal 2002. The impact of the regulatory reform has spread to the surrounding living environment of the people, as can be seen in the facts that medicines, such as antifatulent, which had been only available at drugstores, as it was categorized as pharmaceuticals, are now available at convenience stores as they are now categorized as quasi-drugs and that private companies can now crack down on illegal parking.

Yoshihiko Miyauchi, chairman of Orix, who took office as chairman of the taskforce in 1996, has led deregulatory debate as chairman of the Regulatory Reform and Privatization Promotion Council until Kusakari replaced him.

In a bid to counter the logics of government agencies, which are negative toward regulatory reform, Miyauchi picked employees of leading companies as staff members of the council, appointing them as part-time national government employees. Of the current 33 staffers of the council, about a half of them are from leading companies. However, this method has drawn criticism in the Diet that they make rules and make profits. With such criticism in mind, the government is now considering the proper form of a panel that will succeed the council.

(5) Defense Agency's upgrading to ministry (Part 3): Political dynamics needed for legislation

YOMIURI (Page 4) (Full)
December 19, 2006

The Defense Agency owes a great deal to the power of politics for its elevation to the status of a ministry.

On July 15, the ruling Liberal Democratic Party's Nikai faction held a workshop of its members in the town of Oyama, Shizuoka Prefecture. Deputy Director General for Defense Takemasa Moriya, the No. 2 man of the Defense Agency, was invited to the workshop as a guest speaker. Moriya made the case for passing a pending package of bills then before the Diet in its ordinary session to upgrade the Defense Agency to ministry status. Toshihiro Nikai, who leads the faction, gave encouragement to Moriya at once.

Nikai told Moriya: "In the ruling parties, there are also some people who are negative about upgrading the Defense Agency to a ministry, but we absolutely must upgrade the Defense Agency to a ministry." He added, "I want the Defense Agency to have confidence we will work it out."

The first time Nikai committed himself to upgrading the Defense Agency to ministry status, he was chairman of the Diet Affairs Committee of the New Conservative Party (NCP or Hoshuto), which was one of the LDP's two coalition partners including the New Komeito.

In January 2001, the government reorganized its ministries and agencies under the Central Government Offices Restructuring Law. At the time, the Defense Agency was not upgraded to ministry status. Later on, in June that year, the NCP's Nikai, teaming up with some LDP and independent lawmakers, brought a bill before the Diet to establish a defense ministry. The bill died stillborn in 2003. However, it left a chance of raising the Defense Agency's status to a ministry in the future.

In September this year, Nikai became chairman of the LDP Diet Affairs Committee. In the extraordinary session of the Diet, for a while, it seemed uncertain the Defense Agency would be upgraded in the aftermath of a tug of war between the ruling and opposition camps over the now-amended Fundamentals of Education Law. However, Nikai urged Defense Agency Director General Kyuma to keep pushing for the elevating of the Defense Agency to ministry status. "We will never fail to get the legislation through the Diet during the current session," Nikai told Kyuma.

Meanwhile, in the leading opposition Democratic Party of Japan (DPJ, Minshuto) as well, former President Seiji Maehara urged Secretary General Hatoyama to vote to upgrade the Defense Agency. "I'm absolutely in favor of this legislation," Maehara told Hatoyama. Conservative lawmakers in the DPJ pressured the party's leadership.

This became the clincher for the DPJ to decide to vote for the upgrading legislation. Consequently, the legislation cleared both the House of Representatives and the House of Councillors with an overwhelming majority of votes -- about 90% of all legislators in both chambers of the Diet.

The Defense Agency will be formally upgraded to a ministry in

January next year. Even so, the agency will need to ask for political judgments on a number of challenges in store. One example is to establish a permanent law for Japan's dispatch of Self-Defense Forces troops instead of making an ad hoc law for each SDF dispatch.

In its manifesto for the House of Representatives election in 2005, the LDP upheld its policy proposal to create a permanent law for the SDF's overseas missions. Prime Minister Abe also exhibited a positive stance on Dec. 14, saying it would be possible to take "flexible" action if there is a permanent law.

The Special Measures Law for Assistance with Iraq's Reconstruction is to expire in July next year, and the Special Measures Law on Terrorism is also to expire in November. Shigeru Ishiba, former director general of the Defense Agency, insisted on the necessity of enacting a permanent law in a Dec. 5 meeting of the LDP's executive board, raising a question about making a time-limited law and extending it for each SDF dispatch.

However, Kyuma remains cautious about the idea of creating a permanent law, saying: "I wonder if it's possible to enact permanent legislation in the form of including a law to back up US forces going to war like the Antiterrorism Special Measures Law." The Defense Agency recognizes the need to expand the scope of authorization for SDF members to use weapons for the purpose of ensuring their security on their overseas missions. "But," one in the agency says, "the constitutional hurdle is high." This is contrasting to the Foreign Ministry, which is positive about enacting permanent legislation in an aim to ensure more diplomatic cards.

There are also some people who presume that full-fledged coordination within the government and the ruling coalition will be after next summer's House of Councillors election.

The government's constitutional prohibition against collective self-defense is also a critical issue to address.

In that respect, the prime minister has specified missile defense as one of those subject to case studies for Japan's possible participation in collective self-defense. This gave heed to the advisability of intercepting US-bound missiles.

However, Kyuma has stated that it would be "technically difficult" to shoot down missiles headed for the United States. "We need to clear this problem before going on to collective self-defense," Kyuma said. With this, Kyuma took a different stance within the government on collective security.

"Japan can shoot down a missile that is obviously headed for the United States. But if Japan says it's not allowed under domestic law to do so, that's crazy. That's not an alliance." With this, US Deputy Under Secretary of Defense Lawless voiced his strong dissatisfaction when he met with Ishiba in Tokyo in early December. He was concerned because Japan would not give substance to its

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debate on collective self-defense.

Former Prime Minister Yasuhiro Nakasone (who once served as director general of the Defense Agency) has suggested the need for Japan to make a bottom-up review of its defenses next year when the Defense Agency will be elevated to ministry status. It will be considerably difficult to overcome legal constraints. It will be necessary not only for bureaucrats but also for politicians to settle down and meet the challenge.

(6) Prime Minister's schedule, December 25

NIHON KEIZAI (Page 2) (Full)
December 26, 2006

09:36

Met at Kantei with Finance Ministry Vice Minister Fujii and Vice Minister of Finance for International Affairs Watanabe.

10:10

Met former Ambassador to Thailand Hisahiko Okazaki. Followed by members of the expert council on promotion of administrative streamlining, including Chairman Iida and next Chairman Mogi.

10:41

Responded to an interview for the New Year by the Yamaguchi Shimbun and Yamaguchi Broadcasting Station. Later, met Vice Foreign Minister Yachi.

12:48

Attended a council meeting of Nihon Keidanren at the Keidanren Hall in Otemachi.

13:43

Met at Kantei with LDP Women's Section Head Yamanaka and Youth Section Head Hagiuda.

14:07

Met National Association of Commercial Broadcasters in Japan Chairman Hirose and others. Followed by Chief Cabinet Secretary Shiozaki, and deputy chief cabinet secretaries Shimomura, Suzuki, and Matoba.

15:41

Met Deputy Secretary General Ishihara at party headquarters. Hands over a recommendation letter to the LDP-endorsed candidate for the Miyazaki gubernatorial election.

16:15

Met Science and Technology Minister Takaichi, Comprehensive Science and Technology Conference member Hiroyuki Abe and others at Kantei. Later met Regulatory Reform and Privatization Promotion Conference Chairman Kusakari and others.

17:03

Attended a meeting of the Comprehensive Science and Technology Conference.

18:04

Attended a meeting of cabinet ministers responsible for drawing up monthly economic reports. Met Economic and Fiscal Policy Minister Ota, Special Advisor Nemoto, and others. Nemoto stayed behind.

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19:28

Dined with singer Agnes Chang in her office in Hiroo, together with his wife Akie.

20:58

Returned to his official residence.

DONOVAN